

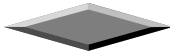


***Program Compliance Office
Cal Grant Review Report***

2000-01 Award Year

**The Union Institute
Program Review ID#80201092300**

**6310 San Vicente Boulevard, Suite 107
Los Angeles, CA 90048**



Program Review Dates:	March 25 – March 27, 2002
Auditors:	Jeannette Pagtalunan (916) 526-6469 Inez Villanueva (916) 526-8034
Report Approved by:	Charles Wood, Manager Program Compliance Office (916) 526-8912

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AUDITOR'S REPORT

SUMMARY

We reviewed The Union Institute's administration of California Student Aid Commission (Commission) programs for the 2000-01 award year.

The institution's records disclosed the following deficiencies:

- Cal Grant Institutional Participation Agreement Does Not Lists All Authorized California Academic Centers
- Center for Distance Learner is not Associated with a California Academic Learning Center Location
- Institution Disbursed More Tuition Than Eligible Amount
- Federal Document Missing
- Incorrect Cal Grant Disbursement
- Student Education Level Reported Incorrectly
- Unmet Need Calculated Incorrectly
- Reconciliation Discrepancies 2000-01 Award Year
- Interest Earned on Cal Grant Funds Not Returned to the Commission

BACKGROUND

Through institution compliance reviews, the administration of Commission programs is evaluated to ensure program integrity with applicable laws, policies, contracts and institutional agreements as they pertain to the following grant programs administered by the Commission:

Cal Grant

A and B

The following information, obtained from the institution and Commission database, is provided as background on the institution:

A. Institution

- Type of Organization: Institution of Higher Education, Private
- President: Judith A. Sturnick, Ph.D.
- Accrediting Body: The Higher Learning Commission of the North Central Association of Colleges and Schools (North Central)
- Size of Student Body: 3,000

B. Institutional Persons Contacted

- James Rocheleau, Ph.D: Dean, California Centers
- Rebecca J. Zackerman: Director, Financial Aid
- Richard Hohne: Senior Accountant, Fiscal Operations

AUDITOR'S REPORT (continued)

C. Financial Aid

- Date of Prior Commission Program Review: None
- Branches: None
- Financial Aid Programs: Federal: Family Education Loan Program; Workstudy; Pell; SEOG; and Perkins.
State: Cal Grant A and B
- Financial Aid Consultant: None

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our review is to provide the Commission with assurance that the institution adequately administered the Commission programs and their compliance with applicable laws, policies, contracts and institutional agreements as they pertain to the grant programs administered by the Commission.

The review focused on, but was not limited to, the following areas:

- A. General Eligibility
- B. Applicant Eligibility
- C. Fund Disbursement and Refunds
- D. Roster and Reports
- E. File Maintenance and Records Retention
- F. Fiscal Responsibility and Program Funds

The specific objectives of the review was to determine that:

- Administration systems have adequate controls to ensure that grant funds received by the institution are secure.
- Administration systems have adequate controls to ensure that grant payments are accurate, legal and proper.
- Accounting requirements are being followed.

The procedures performed in conducting this review included:

- Evaluation of the current administrative procedures through interviews and reviews of student records, forms and procedures.
- Evaluation of the current payment procedures through interviews and reviews of student records, forms and procedures.
- Reviewing the records and grant payment transactions from a sample of 11 Cal Grant students who received a total of 11 Cal Grant A awards within the review period. The program review sample was randomly selected from the total population of 11 recipients.

This review was conducted in accordance with **Government Auditing Standards** issued by the Comptroller General of the United States. However, the procedures did not constitute a review of the institution's financial statements.

AUDITOR'S REPORT (continued)

**OBJECTIVES,
SCOPE AND
METHODOLOGY
(continued)**

The review scope was limited to planning and performing procedures to obtain reasonable assurance that Commission grant funds were administered according to the applicable laws, policies, contracts and institutional agreements. Accordingly, transactions were examined on a test basis to determine whether grant funds were expended in an eligible manner. The auditor considered the institution's management controls only to the extent necessary to plan the review.

This report is written using the exception-reporting format, which excludes the positive aspects of the institution's administration of the California grant programs.

The names and social security numbers of the sample of students reviewed have been excluded from the body of this report and have been replaced by identifying numbers. Attachment A is a listing of the students by name, social security number and grant type.

CONCLUSION

In conclusion, except for the deficiencies cited in the Findings and Required Actions section of this report, the institution administrated the Commission grant programs in accordance with the applicable laws, policies, contracts and institutional agreements as they pertain to the Commissions grant programs.

**VIEWS OF
RESPONSIBLE
OFFICIALS**

The findings were discussed with agency representatives in an exit conference on March 27, 2002. The agency staff responded to the findings on August 14, 2002.

March 27, 2002

Charles Wood, Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

A. GENERAL ELIGIBILITY

FINDING: 1 Cal Grant Institutional Participation Agreement Does Not List All Authorized California Academic Learning Centers

The Cal Grant Institutional Participation Agreement between the Union Institute and the Commission is incomplete.

DISCUSSION:

To be eligible to receive Cal Grant funds for students on its campus, a school must complete and return an Institutional Participation Agreement. The agreement states, "If this agreement is signed by a Chief Executive Officer representing more than one campus, a copy of this signed agreement must be available at each campus".

The Union Institute's agreement does not list two of the California academic learning centers located as follows:

1. Los Angeles Academic Learning Center--6310 San Vicente Boulevard, Suite 107, Los Angeles, CA 90048
2. Sacramento Academic Learning Center--3604 Fair Oaks Boulevard, Suite 250, Sacramento, CA 95864

During the review, institutional staff was encouraged to amend the Institutional Participation Agreement with the Commission's Grant Services Division.

REFERENCES:

Higher Education Act of 1965, amended through 1998, Section 495, Part H-
Program Integrity
Federal Student Financial Aid Handbook 2000-2001, Institutional and Program
Eligibility, Chapter 1: Legal Authorization By A State, page 2 -3
Institutional Participation Agreement, Article VII, Certification
Cal Grant Manual, Chapter 2, pages 2-25 to 5-26

REQUIRED ACTION:

Since the institution and the Cal Grant recipients met the programs eligibility requirements for the review period, no liability resulted. However the institution must provide in its response an updated agreement listing all branch campuses that will receive Cal Grant funds with completed signature authorization from the institution's President and the Commission's Grant Service Division. In addition, the institution must provide policies and procedures that describe the steps the institution will take when the Commission requires change to the agreement.

FINDINGS AND REQUIRED ACTIONS (continued)

INSTITUTION RESPONSE:

Union will add the Los Angeles and Sacramento to the Institutional Participation Agreement.

AUDITOR REPLY:

The institution's submitted a revised Institutional Agreement including Los Angeles and Sacramento, this is deemed acceptable and no further action is required.

A. GENERAL ELIGIBILITY

FINDING: 2 Center for Distance Learner is not Associated with a California Academic Learning Center Location

The Union Institute's Center for Distance Learning is located in Cincinnati, Ohio and not associated with a California location.

DISCUSSION:

The Union Institute is incorporated in the State of Ohio as an independent, non-profit institution of higher education. It awards degrees under authority granted by the Ohio Board of Regents and is licensed to provide higher education in the states of Ohio, Florida and California. According to California state law, to be eligible to receive Cal Grant funds for students on its campus, a school must be headquartered and/or operating in California.

The Union Institute maintained three Academic Learning Centers located within California per 1999 school catalog. These academic learning centers operate in Los Angeles, Sacramento and San Diego. However, on June 30, 2000, the San Diego Academic Learning Center closed.

In consequence of the closure of the San Diego's Academic Learning Center, the institution transferred two Cal Grant A recipients to the Institution's Center for Distance Learning (CDL). This CDL operates in the institution's main campus, which is located in Cincinnati, Ohio. Since the CDL is not associated with a California Branch/Location, the students are ineligible for Cal Grant funds. Student No. 5 received \$6,288 and Student No. 7 received \$7,860 for award year 2000-01 (fall and spring).

REFERENCES:

Institutional Participation Agreement, Article VII, Certification

Cal Grant Manual, Chapter 2, pages 2-25 to 2-26

The Union Institute's College of Undergraduate Studies Catalog 1999, pages 10 to 14

FINDINGS AND REQUIRED ACTIONS (continued)

REQUIRED ACTION:

The institution must return ineligible funds for student No. 5 (\$6,288) and student No. 7 (\$7,860) in the amount of **\$14,148**. Please submit payment as directed in the general repayment instructions located at the conclusion of this report.

Additionally, the institution must submit policies and procedures that will be implemented to ensure that Cal Grant payments are disbursed to students attending institutions that are authorized and operate in California

INSTITUTION RESPONSE:

California learners served by the Center for Distance Learning from Cincinnati Ohio will not be awarded Cal Grants; returned funds are enclosed with this response. The Financial Aid Office has been instructed to award Cal grants only to eligible learners who are enrolled and attending a California academic center.

AUDITOR REPLY:

The institution returned the amount of \$14,148 to the Commission, this is deemed acceptable and no further action is required.

B. APPLICANT ELIGIBILITY

FINDING: 1 Institution Disbursed More Tuition Than Eligible Amount

A review of 11 student files disclosed 5 cases where the institution disbursed more tuition than the student's eligible amount.

DISCUSSION:

The California Education Code indicates that Cal Grant A awards shall be used only for tuition and student fees. Based on a recipient's financial need, the Commission makes tuition/fee payments up to a maximum annual award not to exceed the school's actual tuition/fee charges. The award cannot be disbursed directly to students if tuition charges are specifically covered by other types of aid or if the grant award exceeds the actual charges.

Institutions are required to verify student eligibility at the time funds are processed to the recipient or the recipient's account. The institution must verify the enrollment status for each recipient listed on the Grant roster in accordance with the established institutional policies. The enrollment status must be determined according to the student's attendance at the time Cal Grant funds are paid to the student. Enrollment status directly correlates to the amount of the Cal Grant award and the percentage of eligibility used.

FINDINGS AND REQUIRED ACTIONS (continued)

The institution's enrollment status policy is as follows:

ENROLLMENT STATUS	UNITS
Full -time (FT)	12+
Three-quarter-time (TT)	9-11
Half-time (HT)	6-8

According to the institution's enrollment status policy, the institution should have disbursed the following amounts illustrated in the table below. Instead, the institution paid all students FT. The institution did not prorate for enrollment status.

STUDENT NO.	TERM	UNITS ENROLLED	ELIGIBLE TUITION & FEES	CSAC PAID	INELIGIBLE
1	Spring 01	9	\$2,358	\$3,144	\$ 786
4	Fall 00	10	\$2,720	\$3,144	\$ 424
5	Fall 00	7	\$1,572	\$3,144	\$1,572
	Spring 01	8	\$1,572	\$3,144	\$1,572
9	Spring 01	8	\$1,530	\$3,060	\$1,530
	Summer 01	8	\$2,304	\$3,060	\$ 756
11	Spring 01	6	\$1,572	\$3,144	\$1,572
TOTAL INELIGIBLE AMOUNT DUE TO COMMISSION:					\$8,212

Student No. 1 was enrolled in 9 units, which is TT. A TT Cal Grant A payment is \$2,358 (75% of \$3,144). The school paid the student \$3,144 during the spring 2001; however, the student was eligible for \$2,358 (75% of \$3,144). The result is a tuition overpayment of \$786 (\$3,144 - \$2,358) that must be returned to the Commission.

For student No. 4, the student was enrolled in 10 units TT for fall 2000. A TT Cal Grant A payment is \$2,358 (75% of \$3144) since the student was a graduating senior, the student could receive a FT payment up to the \$3,144 or the amount of tuition charged for fall term, which ever is less by coding a "SR" on the grant roster. The institution paid the student \$3,144 for Cal Grant A, the tuition fee charged was \$2,720. The result is a tuition overpayment of \$424 (\$3,144-\$2,720) that must be returned to the Commission.

In the case of student No. 5, the student was enrolled in 7 units for fall 2000 and enrolled in 8 units for spring 2001, or HT status. A HT Cal Grant A payment is \$1,572 (50% of \$3,144). The institution paid the student \$3,144 during the fall 2000 and spring 2001 terms. The result is a tuition overpayment of \$3,144 (Fall \$1,572 and Spring \$1,572) that must be returned to the Commission.

FINDINGS AND REQUIRED ACTIONS (continued)

Student No. 9 was enrolled in 8 units HT during spring 2001. The institution paid the student \$3,060 during the spring term. A HT payment is \$1,530 (50% of \$3,060). Summer 2001 the student was a graduating senior; therefore, the student can receive a full-time payment up to \$3,060 or the amount of tuition charged for the summer term, which ever is less by coding "SR" on the grant roster. The tuition and fees charged were in the amount of \$2,304 and the institution paid the student \$3,060 which creates an ineligible amount of \$756 (\$3,060 - \$2,304). Thus, the combined ineligible funds for spring 2001 and summer 2001 terms is \$2,286 (\$1,530 + \$756) that must be returned to the Commission.

Student No. 11, was enrolled in 6 units HT for spring 2001. A HT Cal Grant A payment is \$1,572 (50% of \$3,144). The institution paid the student \$3,144 during the spring 2001. The result is a tuition overpayment of \$1,572 (\$3,144 - \$1,572) that must be returned to the Commission.

REFERENCES:

California Education Code 69532(a)
Institutional Participation Agreement, Articles II.A, III.A.2, III.B.5, III.C.5
Cal Grant Manual, Chapter 5, pages 5-11, 5-14 to 5-15, 5-20, 5-22 to 5-23, and 5-42 to 5-43
Cal Grant Manual, Chapter 9, page 9-5 to 9-6

REQUIRED ACTION:

The institution is required to repay the ineligible amount of **\$8,212** for the aforementioned students identified in the table above. However, student No. 5's ineligible amount must be cross referenced with and included in finding A.2. Please submit payment as directed in the general repayment instructions located at the conclusion of this report.

Additionally, the institution is required to perform a portfolio review of all Cal Grant funds disbursed for the award year 2001-2002 to ensure that the institution paid students accordingly. The portfolio review must include all Cal Grant payments for each recipient and presented in spreadsheet format with the following column identifiers:

- Recipient's Name
- Social Security Number
- Award Year
- Program Type
- Term and Year (i.e. Fall 2000 or Spring 2001)
- Number of Units Per Term
- Actual Tuition Charged Each Term
- Date of Cal Grant Funds Disbursed
- Amount of Cal Grant Funds Disbursed
- Eligible Amount Based On Units Enrolled at the Time of Disbursement
- Ineligible Amount

FINDINGS AND REQUIRED ACTIONS (continued)

A statement attesting to the completeness and accuracy of the data submitted must be provided by the person(s) performing this review. Supporting documents are to be provided upon request and available for any future program reviews. The necessity for requesting additional information will be determined after the response to this finding has been reviewed.

Lastly, the institution is required to submit policies and procedures that will be implemented to ensure that Cal Grant payments are disbursed according to the student's enrollment status.

INSTITUTION RESPONSE:

Financial Aid has been instructed to review full time/part time status to insure the level of award is appropriate. This review must be done at the beginning of each term and at the end to adjust for adds/drops of credit hours. The over award amount is enclosed.

AUDITOR REPLY:

The institution returned the amount of \$8,121 and \$8,306 for award years 2000-01 and 2001-02 to the Commission. This is deemed acceptable and no further action is required.

B. APPLICANT ELIGIBILITY

FINDING 2: Federal Document Missing

A review of 11 Cal Grant student files disclosed one case where student eligibility could not be determined.

DISCUSSION:

Federal output documents such as the Institutional Student information Report (ISIR) are required to determine student eligibility to receive Cal Grant funds. For the Cal Grant program, the ISIR confirms the citizenship of the recipient, indicates if the student is a California resident, displays the expected family contribution calculated from the family income and assets, and reports if the applicant has passed critical edits in order to receive financial aid.

Student No. 3 received \$6,288 for award year 2000-01. At the time of the audit, the institution could not provide the student's 2000-01 ISIR.

REFERENCES:

Student Financial Aid Handbook 2000-01, Institutional and Program Eligibility, Chapter 8: Recordkeeping and Disclosure, pages 2-215 to 2-218
Institutional Participation Agreement, Article II. J and L
Cal Grant Manual, Chapter 9, page 9-9

FINDINGS AND REQUIRED ACTIONS (continued)

REQUIRED ACTION:

Unless the institution can provide the 2000-2001 ISIR for student No. 3, the institution is required to repay the ineligible Cal Grant funds in the amount of **\$6,288** for summer 2001. Also, the institution must provide and implement written procedures and measures to ensure that the current ISIR is on file to document a student's eligibility for payment and that the ISIR must be obtained before disbursement of any funds.

In addition to student No. 3's observation above, the auditor noted that the Commission advanced \$3,144 for student No. 3 spring 2001 term; however, the institution kept this student's funds as undisbursed since the student did not enroll for spring 2001 term. On March 4, 2001, the institution returned \$3,144 to the Commission. Please refer to finding F.1 for further discussion on this observation.

INSTITUTION RESPONSE:

The Financial Aid office lost the original ISIR from the paper file and could not obtain a copy from US Department of Education. This was a clerical filing error. It has always been against Union's policies and procedures to award any Federal or State grants without the ISIR. This was human error and the only correction is the enclosed payment of the award for the missing document.

AUDITOR REPLY:

This is deemed acceptable and no further action is required.

C. FUND DISBURSEMENT AND REFUNDS

FINDING 1: Incorrect Cal Grant Disbursement

A review of 11 student files revealed 1 case in which the institution disbursed more than the student was eligible to receive.

DISCUSSION:

Institutions are required to verify student eligibility at the time that Cal Grant funds are disbursed to the student or credited to the student's account. The enrollment status must be determined according to the student's attendance at the time Cal Grant funds are paid to the student. Enrollment status directly correlates to the amount of the Cal Grant award and the percentage of eligibility used.

Student No. 7 is eligible to receive Cal Grant A award of \$9,432. This amount is for tuition costs incurred during award year 2000-01. Since the institution pays in three terms, tuition per term is \$3,144 (\$9,432 divided by 3 terms). During the fall 2000, the student was charged \$3,144 for tuition and fees and completed 12 units. The institution disbursed a payment of \$4,716 for the fall 2000 semester. The student received an excess of \$1,572 (\$4,716-\$3,144); therefore, \$1,572 is ineligible.

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

Institutional Participation Agreement, Article III.B.5

REQUIRED ACTION:

The institution is instructed to return the ineligible amount of **\$1,572** on behalf of student No. 7 as directed in the payment instructions located at the conclusion of this report. Please provide and implement written procedures and measures to ensure that Cal Grant payments are disbursed appropriately.

In addition to this finding, this student's enrollment is through the Center for Distance Learning. The ineligible funds identified for student No. 7 in this finding are cross-referenced and included in finding A.2.

INSTITUTION RESPONSE:

The over award was a human error in which a counselor computed the award based on two semesters per year instead of the standard three semesters for Union's program. The Director of Financial Aid will review all Cal grant awards for excess over tuition as well as for credit hours in B-1 above. The amount of excess award is enclosed.

AUDITOR REPLY:

The institution returned the amount of \$1,572 to the Commission, this is deemed acceptable and no further action is required.

D. ROSTERS AND REPORTS

FINDING 1: Student Education Level Reported Incorrectly

A review of 11 Cal Grant student files disclosed one instance in which the institution verified and reported an incorrect education level.

DISCUSSION:

The Education Level Verification Report is used to verify a new recipient's educational level (EL). A recipient's EL determines the number of years a student will be eligible to receive Cal Grant benefits. The education level reported for the first term of payment determines how much Cal Grant the student will receive.

The table shown below is the grade level progression.

NUMBER OF UNITS	GRADE LEVEL
0 – 30	1
31 – 60	2
61 – 90	3
90 – up	4

FINDINGS AND REQUIRED ACTIONS (continued)

The institution verified student No.8 as an EL 2. Upon review of the student's academic file, the student entered the institution in the fall 2000 with 25.34 transfer units. According to the Cal Grant Program Review Survey, the institution's policy on class level status considers 0-30 units as an EL 1. The student was given 300% eligibility instead of 400%.

REFERENCES:

34 CFR 668.16(b)(4)

34 CFR 668.16(f)

Cal Grant Manual, Chapter 5, pages 5-4, and 5-11 to 5-12

Cal Grant Manual, Chapter 7, pages 7-3 to 7-6

REQUIRED ACTION:

In response to the above finding, the institution must provide the written policies and procedures that will be put into place to ensure that a student's EL is correctly verified at the time of disbursement.

INSTITUTION RESPONSE:

The student eligibility level is checked upon entry against the transfer credit hours accepted by the Registrar into Union's degree program. The learner's transcript indicates that over 70 credit hours were transferred to Union. The auditors may have only looked at college 1 and not included college 2 from which hours were accepted. Financial Aid confirms the EL based on the official transcript of every Cal grant applicant. No new action required.

AUDITOR REPLY:

This is deemed acceptable and no further action is required.

**D. ROSTERS AND
REPORTS****FINDING 2: Unmet Need Calculated Incorrectly**

A review of 11 Cal Grant student files disclosed one instance in which unmet need was calculated incorrectly.

DISCUSSION:

Renewal recipients are students who have been initially awarded a cal Grant in a previous year and have remained eligible in the program. In order to continue to receive a Cal Grant A award, recipients must show evidence of financial need at the school they will attend. Schools must calculate a student's unmet need and report the figure to the Commission, retaining supporting documentation within the student's record.

FINDINGS AND REQUIRED ACTIONS (continued)

A school may use the Commission's annually established student expense budget to confirm the unmet need of renewal applicants or adopt its own student for determining renewal eligibility, provided the budgets do not exceed those used for campus-administered aid. The school must report the resulting net unmet need on the Grant Roster or the Commission G-21 form. Net unmet need is defined as the student's cost of attendance (COA) minus the Expected Family Contribution (EFC), minus all other aid (EFA).

Student No. 9's file revealed that the institution failed to include Pell Grant as part of the formula--COA less EFC less Pell Grant. The institution's calculation showed that the COA of \$26,442 less EFC of \$1,503 equaled \$24,939 as the renewal unmet need on the grant roster. Instead, the institution's correct unmet need calculation should be--COA of \$26,442 less EFC of \$1,503 less Pell of \$1,750 equals \$23,189.

REFERENCES:

HEA, Part F, -Need Analysis
Cal Grant Manual, Chapter 4, pages 4-1 through 4-3
Cal Grant Manual, Chapter 5, pages 5-2, 5-8, 5-15, and 5-16

REQUIRED ACTION:

Although no liability resulted from the above finding, the institution is required to submit policies and procedures that would be implemented to ensure that the correct unmet need for renewal Cal Grant recipients is correctly calculated and reported to the Commission.

INSTITUTION RESPONSE:

The calculation for unmet need did not include the PELL amount. This gave an incorrect amount but did not affect the Cal grant award. The correct grant was awarded. Action will be to insure all aid is shown as a deduction in the unmet need calculation even when it does not affect the outcome.

AUDITOR REPLY:

This is deemed acceptable and no further action is required.

FINDINGS AND REQUIRED ACTIONS (continued)

F FISCAL RESPONSIBILITY

FINDING 1: Reconciliation Discrepancies 2000-01 Award Year

Review of documentation revealed that Cal Grant Funds were not reconciled for the 2000-01 award year.

DISCUSSION:

All participating institutions agree to use the funds advanced solely for payment to eligible recipients in the Cal Grant Program. Once the Commission advances Cal Grant funds, institutions must determine and verify student eligibility before disbursing funds.

The Commission strongly recommends that the schools reconcile Cal Grant payments on a monthly basis. At a minimum, Cal Grant Participating institutions must reconcile their accounts with the funds received from the Commission for each academic year. Should the institution's records of individual payments to eligible students be less than what the Commission paid, the institution must return the difference to the Commission.

Institutions must make all disbursements by September 30 following the end of the award year (for example, September 30, 2002, for award year 2001-02). At the latest, all payment transactions must be reported prior to the start of the month-end processing the following November. The institution will bear the liability for payments not reported prior to the November month-end processing cycle.

In reviewing the accounting records and student files it was revealed that Student Nos. 3 and 7 were not paid by the institution.

The Commission advanced \$3,144 for student No. 3 during the Spring 2001. This semester starts on March 5, 2001 through June 22, 2001; however, student No. 3 was not enrolled. The institution credited the student's account on November 30, 2001 for the spring semester. Thus, the institution kept the funds as undisbursed and returned to them to the Commission on March 4, 2002. As of the last day of fieldwork, March 27, 2002, the undisbursed funds were pending clearance of check.

For student No. 7, the Commission advanced \$3,144 for summer 2001. The student moved out of State of California; therefore, the institution reversed summer 2001 Cal Grant funds and returned to the Commission on March 4, 2002.

REFERENCES:

California Education Code, 69535.5, and 69535(c)
Institutional Participation Agreement, Article III.B. and Article III.C.
Cal Grant Manual, Chapter 6,
Cal Grant Manual, Chapter 9, page 9-11

FINDINGS AND REQUIRED ACTIONS (continued)

REQUIRED ACTION:

The institution has returned a total of **\$6,288** undisbursed funds to the Commission via check #1849675. The check has cleared the institution's bank on April 22, 2002. Therefore, no further action is required in regards to returning undisbursed funds. However, the institution must submit policies and procedures to ensure that timely reconciliations are performed and any undisbursed funds are returned.

In addition to student No. 3's observation above, the Commission noted that student's file was missing the 2000-01 ISIR. Without this document, all funds advanced to this student are ineligible. This was addressed in finding B.2.

Moreover, student No. 7's observation above, the Commission noted two other separate findings with student's enrollment. This student participated in the Center for Distance Learning and was overpaid during the fall 2000 semester. Please refer to findings A.2 and C.1 of this report for further discussion.

INSTITUTION RESPONSE:

The lack of an annual reconciliation for year ended June 30, 2001 is very unusual. The Controller will insure that the Director of Financial Aid provides both a monthly moving reconciliation of Cal grant funds and a final annual reconciliation within one month from the end of the award year.

AUDITOR REPLY:

This is deemed acceptable and no further action is required.

F FISCAL RESPONSIBILITY

FINDING 2: Interest Earned on Cal Grant Funds Not Returned to the Commission

An examination of the fund account for the Union Institute disclosed that interest is earned and is not returned to the Commission.

DISCUSSION:

As indicated in the Institutional Participation Agreement signed by the institution's president, all interest earned on Cal Grant funds must be returned to the Commission on behalf of the State regardless of any agreement between the bank and the institution relative to bank charges or co-mingling of funds. The exception to this is if an invoice is \$5.00 or less, the interest refund is not required.

The Cal Grant Program Review Survey, page 6, completed by the school disclosed interest earned on Cal Grant funds are not returned to the Commission. Discussion with institution's staff and review of bank statements support interest in the amount of \$5,726.41 was earned during award year 2000-01. However, the

FINDINGS AND REQUIRED ACTIONS (continued)

bank statements show that other funds are deposited and commingled with state funds. Consequently, the possibility exists that the actual amount owed on interest earned is unknown until the institution reconciles between amount of interest owed to the State and interest owed to other financial aid programs.

Since the institution did not provide proof that interest earned on Cal Grant Funds has ever been returned to the Commission, additional accounting ledgers were reviewed to determine how much interest earned has been accrued over the years. In response, the institution provided the "CAL General Ledger Summary for Fiscal Year 2000-2001".

Based on this accounting document, an ending cash balance (acct. #1001) exist as follows:

1. Beginning Balance 6/30/00	\$13,976.48
2. Plus: Cash Receipts from the State	66,954.00
3. Less: Payments to the Institution	<72,751.31>
4. Less: Refunds to the State	<374.00>
5. Plus: Interest Posted to Account	<u>5,726.41</u>
Ending Balance at 6/30/01	\$13,531.58

From this "Cal General Ledger Summary", the institution re-classified \$13, 074.39 out of \$13, 531.58 at year end June 30, 2001 as a state payable. At the time of the exit conference, auditors discussed the possibility of \$13,074.39 being the cumulative interest earned that is owed to the state. Accounting staff indicated that since this ledger's ending balance includes all of \$5,726.41 interests earned between commingled funds, the ledger was incorrect. Accounting Staff agreed to perform a reconciliation of cumulative interest earned over time in order to determine actual interest owed to the Commission.

Prior to the issuance of the draft report, the institution's accounting staff submitted supporting calculations and a summary schedule of interest earned from Fiscal Year end 6/30/92 to 6/30/01. According to this summary and methodology of allocating interest earned, the institution owes a cumulative total of **\$8,745.99** in interest earned.

REFERENCES:

Institutional Participation Agreement, Article II.C and III.C.1
Cal Grant Manual, Chapter 9, page 9-11
Cal Grant Program Review Survey, page 6

REQUIRED ACTION:

Beginning with the 2000-01 award year, the institution must return on behalf of the State of California all interest accrued on Cal Grant funds. If the accrued interest is co-mingled with other institutional funds, then the funds must be differentiated from

FINDINGS AND REQUIRED ACTIONS (continued)

other financial aid funds. In this case, the institution must return **\$8,745.99** for the 2000-01 award year. In addition, the school is required to return any Cal Grant interest earned in the subsequent award year 2001-02 with documentation to support amount returned. Please submit payment as directed in the general payment instructions, which can be found at the conclusion of the draft report.

In addition, the institution is instructed to provide the written procedures and internal controls that will be put into place to ensure that interest is returned as required. These procedures should include the rate used to calculate Cal Grant interest, the time frame for returning interest, and the titles of staff responsible for ensuring that the interest is returned to the Commission at the minimum of once per award year.

INSTITUTION RESPONSE:

Interest earned will be calculated and returned as part of the annual reconciliation of Cal grant funds. Fortunately the accumulated interest had not been spent and was still in the account for return to the state. All interest due is enclosed.

AUDITOR REPLY:

The institution's returned the amount of \$14,148 to the Commission for the 2001-02 award year, this is deemed acceptable and no further action is required.

ATTACHMENT A - STUDENT SAMPLE
